

AR40



**Granisle Copper Limited**  
**Annual Report 1975**



**AR40**

**Granisle Copper  
Limited**

**INTERIM REPORT  
TO SHAREHOLDERS**

**for the six months ended  
March 31, 1977**

**17th FLOOR-1050 WEST PENDER STREET  
VANCOUVER, BRITISH COLUMBIA  
V6E 2H7**

# Granisle Copper Limited

17th Floor, 1050 West Pender Street  
Vancouver, British Columbia V6E 2H7

May 2, 1977

To the Shareholders:

The operating results (unaudited) are as follows:

	Three Months Ended March 31		Six Months Ended March 31	
	1977	1976 (Restated)	1977	1976 (Restated)
Net revenue .....	\$ 7,586,000	\$ 4,722,000	\$11,879,000	\$ 8,573,000
Expenses:				
Cost of production .....	4,800,000	4,219,000	9,442,000	8,415,000
Depreciation and depletion .	507,000	473,000	990,000	930,000
Exploration .....	33,000	32,000	68,000	69,000
General and administrative .	166,000	132,000	311,000	243,000
	<u>5,506,000</u>	<u>4,856,000</u>	<u>10,811,000</u>	<u>9,657,000</u>
Operating income (loss) .....	2,080,000	(134,000)	1,068,000	(1,084,000)
Investment and other income ...	<u>226,000</u>	<u>81,000</u>	<u>472,000</u>	<u>342,000</u>
Income (loss) before taxes .....	2,306,000	(53,000)	1,540,000	(742,000)
Provision for taxes:				
Mineral land tax .....	—	—	—	35,000
Income and resource taxes	<u>886,000</u>	<u>(122,000)</u>	<u>560,000</u>	<u>(367,000)</u>
	<u>886,000</u>	<u>(122,000)</u>	<u>560,000</u>	<u>(332,000)</u>
Net income (loss) .....	<u>\$ 1,420,000</u>	<u>\$ 69,000</u>	<u>\$ 980,000</u>	<u>\$ (410,000)</u>
Net income (loss) per share ....	<u>\$ .42</u>	<u>\$ .02</u>	<u>\$ .29</u>	<u>\$ (.12)</u>
Cash dividends per share				
in U.S. dollars .....	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Shares outstanding .....	<u>3,329,919</u>	<u>3,329,919</u>	<u>3,329,919</u>	<u>3,329,919</u>

The statement of changes in financial position (unaudited) is as follows:

	Six Months Ended March 31	
	1977	1976 (Restated)
Working capital provided by:		
Operations:		
Net income (loss) for the period .....	\$ 980,000	\$ (410,000)
Depreciation and depletion .....	990,000	930,000
Deferred income and resource taxes .....	360,000	(46,000)
Other .....	(23,000)	—
Working capital provided by operations .....	2,307,000	474,000
Proceeds from disposal of property, plant and equipment .....	337,000	137,000
Long-term borrowing .....	2,043,000	839,000
Total working capital provided .....	<u>\$ 4,687,000</u>	<u>\$ 1,450,000</u>
Working capital applied to:		
Additions to property, plant and equipment .....	\$ 910,000	\$ 1,553,000
Exploration costs deferred .....	24,000	31,000
Increase in refundable deposits .....	40,000	—
Reduction of long-term debt .....	400,000	—
Total working capital applied .....	<u>\$ 1,374,000</u>	<u>\$ 1,584,000</u>
Increase (decrease) in working capital .....	\$ 3,313,000	\$ (134,000)
Working capital at beginning of period (restated) .....	17,820,000	20,173,000
Working capital at end of period .....	<u>\$21,133,000</u>	<u>\$20,039,000</u>

Results for the first six months of fiscal 1977 show Net Income of \$980,000, or \$.29 per share, compared to a net loss of \$410,000, or \$.12 per share, for the same period a year earlier.

Results for the periods ended March 31, 1976 have been restated to reflect a reduction in Mineral Land Tax resulting from (a) the exemption from tax of stockpiled ore on hand at December 31, 1973 and (b) the rescission of the provisions of the British Columbia Mineral Land Tax Act, as they relate to assessments based on the value of the Companies' production, effective January 1, 1976. The effect of the foregoing is to change the previously reported net loss for the three months ended March 31, 1976 of \$118,000 to net income of \$69,000, and to reduce the previously reported net loss for the six months ended March 31, 1976 from \$669,000 to \$410,000.

The average London Metal Exchange price for copper in the current six month period was \$.62 U.S. per pound, compared with \$.55 U.S. per pound in the year earlier period. The higher price, together with increased production referred to below, resulted in a 39% increase in net revenue in the current six month period. The increase in production costs in the first six months of fiscal 1977 is due mainly to (a) the higher stripping ratio—approximately 5.7 million tons of waste were removed in the current six month period compared with 3.7 million tons in the same period a year ago, and (b) additional costs associated with the increased throughput as shown below.

As explained in the Notes to the Financial Statements in the 1976 Annual Report, the Company was reassessed for mining tax payable for the period December 1, 1969 to September 30, 1971. The additional amount alleged to be owing was \$869,012, including statutory interest of \$149,820, which was paid by the Company. Following an appeal by Granisle to the Supreme Court of British Columbia, the Court rendered a judgement substantially favourable to the Company on May 9, 1975. The subsequent appeal from this decision by the Minister of Finance was dismissed by the Court of Appeal in a unanimous judgement rendered on December 10, 1976. No further appeal was made by the Minister and a revised re-assessment in accordance with the terms of the Judgement was issued in March, 1977. As a result, the Company has recovered from the British Columbia Government \$841,632, including interest of \$146,083, in respect of the period ended September 30, 1971.

Also, the mining tax liability for the years 1972 to 1975 has been reduced by \$688,000 and retained earnings increased by \$1,529,632. Working capital at September 30, 1975 and 1976 has been increased by \$1,409,632 after allowing for deferred taxes of \$120,000.

Production statistics are given below:

	<b>Three Months Ended March 31</b>		<b>Six Months Ended March 31</b>	
	<b>1977</b>	<b>1976</b>	<b>1977</b>	<b>1976</b>
Average tons milled per day . . . .	13,948	11,968	14,018	12,638
Pounds of copper produced . . . .	9,910,000	7,767,000	19,086,000	16,293,000

The tonnage milled in the current six month period was 11% higher than the year-earlier period, due mainly to softer-grinding ore; this resulted in a 17% improvement in copper production.

On behalf of the Board,

R. P. Taylor,  
President.

**DIRECTORS**

J. H. Colton  
Senior Vice-President  
and Secretary

T. G. Ewart  
Retired,  
Calgary, Alberta.

W. F. James  
Partner,  
James & Buffam, Consulting Geologists,  
Toronto, Ontario.

J. W. Jewitt  
Vice President—Mining,  
Zapata Corporation,  
Houston, Texas.

R. C. Lassiter  
Executive Vice President and  
Chief Operating Officer,  
Natural Resource Products,  
Zapata Corporation,  
Houston, Texas.

G. T. Smith  
President,  
United Siscoe Mines Limited,  
Toronto, Ontario.

R. M. Sutherland, Q.C.  
Partner,  
Fasken & Calvin,  
Barristers and Solicitors,  
Toronto, Ontario.

R. P. Taylor  
President

**OFFICERS**

R. P. Taylor  
President

J. H. Colton  
Senior Vice-President and Secretary

J. L. McCrea  
Vice-President, Exploration & Development

R. B. Richards  
Treasurer

J. D. Balden  
Assistant Treasurer

E. A. Bence  
Assistant Secretary

**GENERAL MANAGER — MINING**

E. M. Berthelsen

**TRANSFER AGENT AND REGISTRAR**

National Trust Company, Limited,  
Vancouver and Toronto

**AUDITORS**

Arthur Andersen & Co.,  
Vancouver, British Columbia.

**SHARES LISTED**

Toronto Stock Exchange  
Vancouver Stock Exchange



*R.P. Taylor, President*

## To the Shareholders:

The Company's net income for the year ended September 30, 1975 was \$1,590,216, or \$.48 per share compared with \$9,616,000, or \$2.89 per share for the previous twelve month period.

The substantial reduction in earnings is attributable mainly to the following:

1. Lower copper prices. The average London Metal Exchange price for copper in fiscal 1975 was about \$.58 U.S. per pound, compared with \$1.08 in 1974. Through the continuation of its policy of hedging a part of its production, your Company was able to mitigate the effect of the lower prices. These transactions contributed substantially to income and without them a net loss for the year would have been incurred.
2. Increased treatment costs. These arose from the diversion of part of our production to alternate markets, and this matter is dealt with later on in the Marketing section.
3. Increased taxes. Both the Federal and British Columbia Provincial governments have enacted tax legislation which has proved to be particularly oppressive to the mining industry. In fiscal 1975, total taxes amounted to 61% of income before taxes. This punitive rate of taxation prevents the Company from developing new mines in British Columbia and neither the Company, the Province, nor Canada can benefit from such a state of affairs. The British Columbia mining industry is continuing its efforts to convince both governments of the necessity of returning to an acceptable level of taxation.
4. Inflation. The costs of labour, supplies and other services continue to increase. We were specifically affected by substantial increases in the costs of grinding steel, blasting supplies, haulage truck tires, fuel and power, as well as other important goods and

services needed to maintain our operations. Under present conditions, any increase in costs cannot be sustained.

As previously reported, the Board of Directors has instituted a policy of paying no further dividends until such time as the Company's after-tax earnings have risen to a level that, in the opinion of the Directors, warrants consideration of the reinstitution of dividend payments. Monies which would otherwise be paid out in dividends will be directed towards the purchase of needed plant and equipment and the continuation of exploration and business development activities.

Capital expenditures during the year totalled \$1,017,486 and consisted of various replacements and improvements. Dispositions during the year amounted to \$117,703. Projected capital expenditures for fiscal 1976 are estimated at \$2,300,000, the most significant item being the purchase of a ten yard shovel. Other projected expenditures are the completion of new warehouse facilities and the normal replacement of and improvement to plant and equipment.

At the year-end capital commitments totalled approximately \$1,600,000.

The quantity and grade of ore treated compares favourably with that of 1974. Copper recoveries were erratic at times due to the milling of perimeter ores which were high in pyrite and contained little, if any, bornite. As a result, the pounds of payable copper produced in 1975 were slightly lower. The unit cost of production increased 25% to \$3.42 per ton milled. Of the increase, 3% is attributable to an increase in waste removal, and 22% to higher labour costs and rapidly escalating material prices.

As of September 30, 1975, the Granisle copper mine had ore reserves, estimated from computer block values, of 66,066,000 tons at an average copper content of 0.43% and an estimated stripping ratio of 1.1 tons of waste per ton of ore. 4.9 million tons of ore were mined during the year. In addition, the reserves were decreased by 2.3 million tons to adjust for the lower tonnage of ore actually encountered in mining operations. Further pit design studies are being undertaken which may adversely affect future stripping ratios. There was a stockpile at year-end of 2.7 million tons of low grade material with an average copper content of 0.29%.

## SUMMARY OF OPERATIONS

	Year Ended September 30	
	1975	1974
Tons Ore Treated.....	<b>4,879,623</b>	4,853,434
Average Tons Treated Per Day .....	<b>13,369</b>	13,297
Copper Content (%).....	<b>0.46</b>	0.46
Tons Waste Removed .....	<b>7,745,714</b>	6,936,689
Stripping Ratio .....	<b>1:1.58</b>	1:1.41
Unit Cost of Production		
Per Ton Milled .....	<b>\$3.42</b>	\$2.74
Payable Metal Produced:		
Copper (lbs.).....	<b>38,314,129</b>	38,697,527
Gold (ounces).....	<b>16,966</b>	18,369
Silver (ounces).....	<b>137,785</b>	191,958

## MARKETING

Copper prices in fiscal 1975 were generally low; the behaviour of the market in fiscal 1974 and 1975 for the metals which Granisle produces is illustrated by the graphs included in this Annual Report.

The economic downturn resulting in worldwide recession not only affected the price of copper adversely but also brought on a situation of over-supply of raw materials in Japan, our main sales outlet. As a result, that country severely curtailed imports of copper concentrates wherever possible. Because of the reduced smelter production in Japan, it became necessary to divert a portion of Granisle concentrate and arrangements were made for sales into West Germany. This diversion will continue in 1976. The outlook for copper in 1976 is not encouraging in face of the continuing over-supply of the metal worldwide and the expected slow recovery in the industrial economies.

## EXPLORATION AND DEVELOPMENT

The Company presently participates, on the basis of a one-third interest, in the exploration activities of the parent company, Granby Mining Corporation. With respect to its exploration and development program, Granby has reported as follows:

"Granby's exploration and development activities in 1975 continued to be directed towards the basic long-term objectives of product and geographic diversification as formulated in prior years. The Company persists in its search for coal properties in Western Canada and in its efforts to acquire discovered mineral deposits, whether in Canada or abroad, which would offer near-term opportunities for corporate growth.

Total exploration and development expenditures amounted to \$1,723,000 in 1975 compared to \$2,264,000 in 1974 and \$886,000 in 1973.

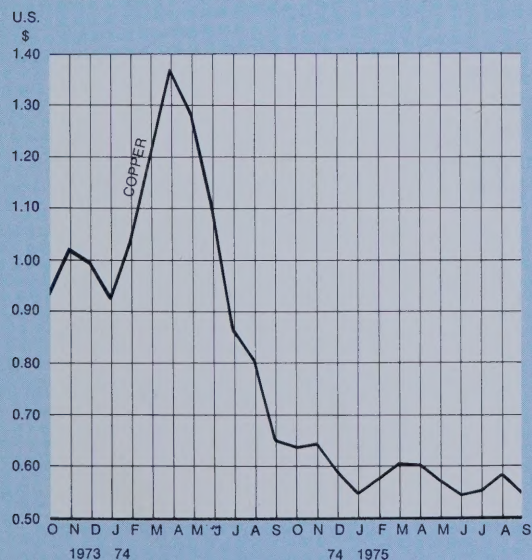
## Granridge Project

The Granridge coking coal property in southwestern Alberta consists of 31,561 acres of crown and freehold leases under option from CanPac Minerals Limited (CanPac). The leases provide the exclusive right to mine coal under a renewable 21-year lease, subject to current mining legislation and royalty payments to the lease-holders.

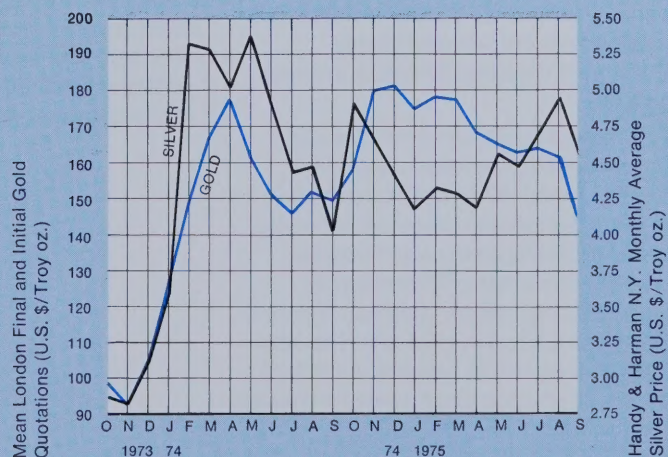
Compilation of the data obtained in the 1974 exploration program, together with preliminary engineering studies indicated the need for an additional program of geological mapping, drilling and bulk sampling designed to locate additional coal structures and to improve the confidence of the estimates on the known coal structures.

Execution of this program was thwarted when the Company was informed by the Government of the Province of Alberta that approval of permits for the exploration of

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coal leases would not be granted until a provincial coal policy had been established. This deferral applied to Granridge along with most of the other coal leases in Alberta. A geologic mapping program was undertaken on previously unexplored portions of the leases; however, drilling and other exploration activities could not be undertaken. Plans have been made to continue exploration in 1976 pending receipt of the necessary governmental approvals.

Under the original terms of the option agreement with CanPac, Granby was required to exercise the option to acquire CanPac's interest in the coal leases by July 1, 1976. Because exploration permits could not be obtained this year, the option period has been extended to July 1, 1977.

## Other Canadian Projects

Granby's other exploration activities in Western Canada continued at a reduced level pending resolution of the federal and provincial government's conflict resulting in heavy taxation of the mining industry. A molybdenum property, held under option from Vestor Explorations Ltd., was drilled without sufficiently encouraging results to warrant continuing the option. Sufficient drilling was carried out on a lead-zinc-barite deposit in the Yukon Territory, held under option from Empire Metals Corporation, to keep the option in good standing.

Further exploration of the Huckleberry property, which had been extensively explored from 1972 to 1974, has been deferred pending an improved economic climate. Granby continues to hold the property under option from Kennco Explorations (Western) Limited. Under the terms of this agreement Granby has until 1989 to complete its expenditure of \$1.5 million, of which approximately \$1.0 million has been spent to date."

## SHARE PURCHASES

Granby's holdings of shares of the Company has increased from 3,190,095 at the beginning of the year to 3,267,080 at the end of the year, or 98.1% of the outstanding shares. Zapata Canada Limited, a subsidiary of Zapata Corporation, owned 1,336,358 shares or 92.5% of Granby as at September 30, 1975, compared with 1,323,423 shares at the same date last year.

## PERSONNEL

The total number of employees at the year-end was 301 compared to 298 a year previously.

The Granisle collective bargaining agreement expires December 31, 1975 and will be re-negotiated in fiscal 1976. Total wages, salaries and employee benefits paid in fiscal 1975 amounted to \$6,354,616, compared to \$4,912,796 in 1974.

## ENVIRONMENT

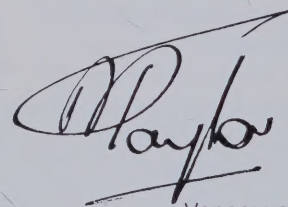
As in the past, protection of the environment at the minesite continues to be a top priority, and those standards established by government agencies are met and in many ways exceeded by the Company. Granisle is continuing its participation in government studies directed towards protection of the Babine watershed and has further extended its reclamation program.

## GENERAL

Effective July 31, 1975, Mr. J. W. Jewitt resigned as President of Granisle and has joined Zapata Corporation, Houston, Texas, as its Vice President—Mining. Mr. R. P. Taylor, formerly Executive Vice-President, was appointed President of your Company by the Board of Directors, effective August 1, 1975. Granisle's Annual General Meeting will be held at 1:30 p.m. on Wednesday, February 18, 1976 in the Plaza West Room, Hyatt Regency Hotel, 655 Burrard Street, Vancouver, British Columbia.

The Directors wish to commend all employees for their spirit and determined efforts to sustain our operations despite the many difficulties with which we were confronted during 1975.

On behalf of the Board of Directors,



R. P. Taylor,  
President

Vancouver, British Columbia  
December 15th, 1975.

## Five Year Financial Summary\*

(stated in \$000's)

	Year ended September 30				9 Months ended September 30
	1975	1974	1973	1972	1971
Net revenues .....	\$ 22,192	\$ 33,407	\$ 22,154	\$ 10,467	\$ 7,533
Expenses					
Cost of production .....	16,670	13,299	10,929	5,896	4,121
Depreciation and depletion.....	2,048	1,853	1,731	1,019	1,417
Exploration .....	249	354	249	80	27
General & administrative .....	458	410	411	346	166
	<u>19,425</u>	<u>15,916</u>	<u>13,320</u>	<u>7,341</u>	<u>5,731</u>
Operating income .....	2,767	17,491	8,834	3,126	1,802
Investment and other income (expense) .....	1,263	799	( 442)	243	283
Income before taxes .....	4,030	18,290	8,392	3,369	2,085
Taxes					
Mineral Land Tax.....	733	669	—	—	—
Income and mining taxes .....	1,707	8,005	3,625	1,380	1,068
	<u>2,440</u>	<u>8,674</u>	<u>3,625</u>	<u>1,380</u>	<u>1,068</u>
Net income .....	\$ 1,590	\$ 9,616	\$ 4,767	\$ 1,989	\$ 1,017
Shares outstanding.....	3,329,919	3,329,919	3,329,919	3,329,919	3,329,919
Net income per share .....	\$ .48	\$ 2.89	\$ 1.43	\$ .61	\$ .31
Cash dividends per share (\$U.S.) .....	\$ .08	\$ .32	\$ .32	\$ .32	\$ .90

\* Restated where necessary for comparative purposes.

## BALANCE SHEET

## ASSETS

	September 30	
	1975	1974
CURRENT ASSETS (Note 1):		
Cash and short-term deposits .....	<b>\$ 7,530,188</b>	\$11,199,405
Accounts receivable .....	<b>5,224,114</b>	4,873,518
Demand note receivable from parent company, at prime interest rate .....	<b>2,580,066</b>	4,000,000
Concentrate inventory, at estimated realizable value .....	<b>4,373,288</b>	3,097,071
Materials and supplies, at the lower of average cost or replacement cost .....	<b>2,996,678</b>	2,405,198
Prepaid expenses .....	<b>177,572</b>	265,971
Total current assets .....	<b>\$22,881,906</b>	\$25,841,163
REFUNDABLE DEPOSITS .....	<b>\$ 90,000</b>	\$ 141,834
PROPERTY, PLANT AND EQUIPMENT, at cost (Note 1) .....	<b>\$29,583,177</b>	\$28,909,047
Less—Accumulated depreciation and depletion .....	<b>10,974,672</b>	9,140,613
Net property, plant and equipment .....	<b>\$18,608,505</b>	\$19,768,434
DEFERRED CHARGES:		
Exploration costs (Note 1) .....	<b>\$ 568,779</b>	\$ 366,419
	<b>\$42,149,190</b>	<b>\$46,117,850</b>

**LIABILITIES AND SHAREHOLDERS' EQUITY**

	<i>September 30</i>	
	<b>1975</b>	1974
CURRENT LIABILITIES:		
Accounts payable and accruals .....	<b>\$ 2,643,040</b>	\$ 1,763,064
Income and mining taxes payable (Note 2) .....	<b>1,475,312</b>	7,555,101
Total current liabilities .....	<b>\$ 4,118,352</b>	\$ 9,318,165
DEFERRED INCOME AND MINING TAXES (Note 2) .....	<b>\$ 5,205,397</b>	\$ 5,301,397
SHAREHOLDERS' EQUITY:		
Capital stock:		
Shares of no par value:		
Authorized, 4,000,000 shares		
Outstanding, 3,329,919 shares .....	<b>\$ 2,594,982</b>	\$ 2,594,982
Retained earnings, per accompanying statement .....	<b>30,230,459</b>	28,903,306
Total shareholders' equity .....	<b>\$32,825,441</b>	\$31,498,288
CONTINGENT LIABILITIES AND COMMITMENTS		
(Note 4)		
	<b>\$42,149,190</b>	\$46,117,850

On behalf of the Board:

J. H. COLTON, Director

R. M. SUTHERLAND, Director

*See accompanying notes to financial statements.*

## STATEMENT OF INCOME

	Year Ended September 30	
	1975	1974
Net revenues (Note 1) .....	<b>\$22,191,963</b>	\$33,407,260
Expenses:		
Cost of production .....	<b>\$16,670,216</b>	\$13,299,227
Depreciation and depletion (Note 1) .....	<b>2,047,575</b>	1,852,726
Exploration (Note 1) .....	<b>248,855</b>	354,023
General and administrative .....	<b>458,500</b>	409,809
	<b>\$19,425,146</b>	\$15,915,785
Operating income .....	<b>\$ 2,766,817</b>	\$17,491,475
Investment and other income .....	<b>1,263,273</b>	798,525
Income before provision for taxes .....	<b>\$ 4,030,090</b>	\$18,290,000
Provision for taxes:		
Mineral land tax .....	<b>\$ 732,874</b>	\$ 669,000
Income and mining taxes (Note 2) .....	<b>1,707,000</b>	8,005,000
	<b>\$ 2,439,874</b>	\$ 8,674,000
Net income .....	<b>\$ 1,590,216</b>	\$ 9,616,000
Net income per share .....	<b>\$ .48</b>	\$2.89
Cash dividends per share in U.S. dollars .....	<b>\$ .08</b>	\$ .32
Number of shares outstanding .....	<b>3,329,919</b>	3,329,919

See accompanying notes to financial statements.

## STATEMENT OF CHANGES IN FINANCIAL POSITION

	<i>Year Ended September 30</i>	
	<b>1975</b>	1974
WORKING CAPITAL PROVIDED BY:		
Operations:		
Net income .....	<b>\$ 1,590,216</b>	\$ 9,616,000
Depreciation and depletion.....	<b>2,047,575</b>	1,852,726
Deferred income and mining taxes.....	<b>(96,000)</b>	935,000
Other .....	<b>12,137</b>	113,280
Working capital provided by operations .....	<b>\$ 3,553,928</b>	\$12,517,006
Deposits refunded .....	<b>51,834</b>	19,367
Total working capital provided.....	<b>\$ 3,605,762</b>	\$12,536,373
WORKING CAPITAL APPLIED TO:		
Net additions to property, plant and equipment .....	<b>\$ 899,783</b>	\$ 2,541,892
Dividends paid .....	<b>263,063</b>	1,045,195
Exploration costs deferred .....	<b>202,360</b>	366,419
Total working capital applied.....	<b>\$ 1,365,206</b>	\$ 3,953,506
INCREASE IN WORKING CAPITAL.....	<b>\$ 2,240,556</b>	\$ 8,582,867
Working capital at beginning of year .....	<b>16,522,998</b>	7,940,131
WORKING CAPITAL AT END OF YEAR.....	<b>\$18,763,554</b>	\$16,522,998

*See accompanying notes to financial statements.*

**STATEMENT OF RETAINED EARNINGS**

	<i>Year Ended September 30</i>	
	<b>1975</b>	1974
BALANCE AT BEGINNING OF YEAR .....	<b>\$28,903,306</b>	\$20,332,501
Add net income .....	<b>1,590,216</b>	9,616,000
	<b>\$30,493,522</b>	\$29,948,501
Deduct dividends paid .....	<b>263,063</b>	1,045,195
BALANCE AT END OF YEAR .....	<b>\$30,230,459</b>	\$28,903,306

**To the Shareholders,  
Granisle Copper Limited:**

We have examined the balance sheet of GRANISLE COPPER LIMITED (a British Columbia company and subsidiary of Granby Mining Corporation) as of September 30, 1975 and 1974, and the related statements of income, retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements present fairly the financial position of Granisle Copper Limited as of September 30, 1975 and 1974, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied during the periods.

ARTHUR ANDERSEN & CO.  
Chartered Accountants

Vancouver, British Columbia  
October 31, 1975.

**Notes to Financial Statements** September 30, 1975 and 1974

**1. Summary of significant accounting policies:**

**Currency Translation**

Current assets denominated in foreign currency have been translated into Canadian currency at the rate of exchange prevailing at the respective balance sheet dates.

**Property, Plant and Equipment**

Particulars of the cost of property, plant and equipment are as follows:

	<i>September 30</i>	
	<b>1975</b>	<b>1974</b>
Mineral claims .....	<b>\$ 65,099</b>	\$ 65,099
Land .....	<b>14,271</b>	14,271
Mine buildings and equipment.....	<b>21,748,714</b>	21,334,187
Mobile and other equipment.....	<b>7,755,093</b>	7,495,490
	<b><u>\$29,583,177</u></b>	<u>\$28,909,047</u>

Depreciation of the mine buildings and equipment is provided on a straight-line basis over the estimated life of the mine. Mobile equipment (except drills and shovels) is being depreciated at 30% per annum on a diminishing balance basis, and drills and shovels on a straight-line basis at 10% per annum.

**Exploration Costs**

Current exploration costs are charged against income for the year. Costs relating to properties, which in the opinion of management indicate a probability of future development, are deferred. The deferred exploration costs will be either amortized over a period not to exceed the estimated life of the revenue producing property or charged against income in the year it is determined that the property under investigation no longer has a probability of future development.

Under the terms of an agreement between the Company and Granby Mining Corporation (Granby), all exploration costs on projects originated by Granby after January 1, 1971, are shared on a one-third, two-third basis.

During the year ended September 30, 1975, Granby incurred exploration expenditures totalling \$607,052 (the Company's share being \$202,360) on the "Granridge" property. This compares with the sum of \$1,099,250 which was spent on this property during fis-

cal 1974. The rights to this property were acquired under an option agreement with CanPac Minerals Limited (CanPac), under the terms of which Granby is committed to incur exploration expenditures, excluding option payments, of \$500,000 on the property by October 1, 1975. This obligation has been fulfilled. Granby was also required to pay to CanPac the sum of \$350,000 by July 1, 1975, and is required to pay a sum of \$2,000,000 by July 1, 1976 if it wishes to exercise the option. Granby, however, applied for but did not receive exploration permits to carry out its 1975 field program, and consequently it was agreed between CanPac and Granby that the liability to make the two option payments of \$350,000 and \$2,000,000 be postponed to July 1, 1976 and July 1, 1977 respectively. Interest at prevailing rates on the sum of \$350,000 will be paid to CanPac by Granby from July 1, 1975 while the option continues in effect, but in any event, not beyond July 1, 1976.

**Net Revenues**

Net revenues include all concentrate production sold under contracts to customers in Japan and West Germany and gains from hedging transactions.

Production represented by concentrate inventory and shipments in transit at year-end has been recorded at the September average quoted price for metals, which is estimated to be the final settlement price.

**Comparative Figures**

The 1974 financial statements have been reclassified to conform with the 1975 presentation.

**2. Income and mining taxes:**

**Provincial Mining Taxes Paid, Under Dispute**

In April 1974, the Commissioner of Income Tax for British Columbia re-assessed the Company for mining tax payable for the period December 1, 1969 to September 30, 1971. The re-assessment is based on an interpretation of certain sections of the Mining Tax Act by the Commissioner, which differed substantially from the interpretation placed on the same sections by the Commissioner during the aforementioned period. The additional amount alleged to be owing is \$869,012, including statutory interest of \$149,820, which has been paid by the Company. The re-assessment was confirmed by the Minister of Finance, and the Company's

appeal therefrom was heard in the Supreme Court of British Columbia on April 11 and 25, 1975. The judgment of the Supreme Court, rendered May 9, 1975, was in favour of the Company in that it declared the method adopted by the Company of calculating mining tax during the relevant period was correct. An appeal from this decision, however, was entered by the Minister of Finance on June 17, 1975. The date on which the appeal will be heard has not as yet been set.

Although liability for tax is not admitted, the financial statements reflect a provision for additional mining taxes of \$465,000 for the period October 1, 1971 to September 30, 1975.

#### Income and Mining Tax Expense

	September 30	
	1975	1974
Current-		
Income tax.....	<b>\$1,803,000</b>	\$4,844,000
Mining tax.....	<b>—</b>	2,226,000
	<b><u>\$1,803,000</u></b>	<u>\$7,070,000</u>
Deferred-		
Income tax.....	<b>\$ 64,000</b>	815,000
Mining tax.....	<b>(160,000)</b>	120,000
	<b><u>\$ (96,000)</u></b>	<u>\$ 935,000</u>
	<b><u>\$1,707,000</u></b>	<u>\$8,005,000</u>

Under the terms of the November 18, 1974 budget passed by the Canadian government, the standard 33⅓% depletion allowance terminated May 6, 1974, and corporations engaged in mining are now allowed to deduct earned depletion. The earned depletion deduction is allowed at the rate of \$1 for every \$3 of eligible capital and exploration expenditures made after November 7, 1969, up to a maximum of 25% of production profits per annum. As of September 30, 1975, the Company had earned depletion available for future years of approximately \$2,325,000 (\$2,300,000 as of September 30, 1974).

Deferred income and mining taxes result primarily from timing differences in the recording of depreciation for accounting purposes and the claiming of capital cost allowances for tax purposes.

### 3. Remuneration of directors and senior officers:

Remuneration of directors and senior officers (as defined in the British Columbia Companies Act) for the year ended September 30, 1975 amounted to \$166,745 (\$162,700 in 1974).

### 4. Contingent liabilities and commitments:

The Company has guaranteed 50% of a \$650,000 first mortgage extended by a bank to Granisle Village Inn Ltd., a non-affiliate, in connection with a hotel built and operated at the Granisle townsite. Granisle Village Inn Ltd. is currently in receivership; however, the Company's management is of the opinion that no material liability in respect of this guarantee will be incurred by the Company.

Further, the Company is contingently liable to a maximum of approximately \$1,600,000 in connection with the mortgaging of certain homes occupied by employees in the town of Granisle. The Company has also guaranteed payment of approximately \$106,000 borrowed by the Village of Granisle from a bank for the provision of community facilities.

Purchase commitments totalling approximately \$1,600,000 have been made in connection with the purchase of various mining equipment and facilities.

At September 30, 1975, no events had occurred giving rise to actual liabilities under these contingencies and commitments.

A civil action, arising from (a) the purchase of stock of Granby by Zapata Canada Limited (Zapata Canada), a wholly-owned subsidiary of Zapata Corporation, and (b) a proposed amalgamation between Granby, the Company and Zapata Canada (which proposal was abandoned in December, 1972) was filed by certain minority shareholders of Granby and the Company naming as defendants the Company, Granby and certain present and/or former directors, and/or officers of Granby and the Company and alleging among other things violations of the United States Securities Exchange Act of 1934 and further seeking equitable relief and compensatory and punitive damages. Baker & Botts, as U.S. counsel for the Company and Granby, after consultation with Canadian counsel on matters of Canadian law, have expressed their opinion that this action should not result in any material loss or liability on the part of either company. No provision has been made in the accounts for any amounts which may become payable as a result of the said actions.



